

Message Text

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ORIGIN EB-08

INFO OCT-01 ARA-10 EUR-12 EA-10 ISO-00 DOE-15 SOE-02
SIG-03 MMO-01 AID-05 CEA-01 CIAE-00 COME-00
DODE-00 H-01 INR-10 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-05 ICA-11 OES-07 SP-02 SS-15 STR-07
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P R 281710Z JUN 78

FM SECSTATE WASHDC

TO AMEMBASSY MEXICO PRIORITY

INFO AMEMBASSY ATHENS

AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY BERN

AMEMBASSY STOCKHOLM

AMEMBASSY COPENHAGEN

AMEMBASSY ROME

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY LONDON

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

AMEMBASSY OTTAWA

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AMEMBASSY CARACAS

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USOECB, BRUSSELS ALSO FOR USEEC

E.O. 11652: N/A

TAGS: ENRG, IEA, MX

SUBJECT: PEMEX PRESENTATION TO IEA/SOM

REF: STATE 163078 (NOT SENT CARACAS)

1. SUMMARY. MEXICAN STATE OIL COMPANY PETROLEOS MEXICANOS (PEMEX) PRESENTATION TO INTERNATIONAL ENERGY AGENCY'S STANDING GROUP ON THE OIL MARKET (IEA/SOM) WAS FULL, INFORMATIVE AND VIEWED AS HIGHLY USEFUL BY SOM DELEGATES. PEMEX EMPHASIZED POLICY OF MEETING DOMESTIC DEMAND AT SUBSIDIZED PRICES, KEEPING PETROLEUM EXPLORATION AND DEVELOPMENT IN NATIONAL HANDS, AND EXPORTING LARGE VOLUMES OF CRUDE AND PRODUCT TO MEET MEXICO'S REVENUE NEEDS. PEMEX ALSO STRESSED INTENT TO CONVERT LARGE FUEL OIL CONSUMERS TO GAS, THEREBY FREEING FUEL OIL FOR EXPORT, UNLESS SATISFACTORY ARRANGEMENTS ARE REACHED TO EXPORT GAS TO THE U.S. END SUMMARY.

2. PEMEX PRESENTATION TO IEA/SOM WAS FIRST BY AN OIL COMPANY NOT BASED IN AN IEA MEMBER STATE. THE VENEZUELAN NATIONAL OIL COMPANY HAD ALSO CONSIDERED A PRESENTATION AT THIS MEETING OF SOM, BUT DECLINED, REPORTEDLY CITING COMPLIATIONS IN LIGHT OF PRESIDENTIAL ELECTIONS LATER THIS YEAR.

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3. PRESENTATION BY ROBERTO OSEGUEDA, PEMEX'S GENERAL MANAGER FOR FOREIGN TRADE, CITED MEXICO'S 1977 PROVEN RESERVES AS 16.5 BILLION BARRELS, POTENTIAL RESERVES OF 30 MILLION BBL AND PROBABLE RESERVES OF 120 BILLION BBL (ALL INCLUDING OIL EQUIVALENT OF ASSOCIATED GAS RESERVES). HE EMPHASIZED HIGH PRODUCTIVITY OF RECENTLY DISCOVERED FIELDS WITH WELLS PRODUCING AS MUCH AS 20,000 B/D YIELDING AVERAGE PER WELL PRODUCTION OF 5,500 B/D. PEMEX HAS ALREADY ANNOUNCED THAT IT EXPECTS TO MEET ITS 1982 TARGET OF 2.2 MILLION B/D PRODUCTION (1.1 MMBD FOR EXPORT) IN 1980, BUT OSEGUEDA REFUSED TO SPECULATE AS TO PRODUCTION LEVELS BEYOND THAT DATE, NOTING THAT PEMEX'S SIX-YEAR DEVELOPMENT PLANS COINCIDE WITH MEXICO'S SIX-YEAR PRESIDENTIAL CYCLE.

4. PEMEX'S CURRENT POLICY GUIDELINES REQUIRE IT FIRST TO MEET DOMESTIC DEMAND FOR PETROLEUM, NATURAL GAS, AND PETROCHEMICAL PRODUCTS AT VERY LOW FIXED DOMESTIC PRICES. SECONDLY, COMPANY MUST MAXIMIZE PARTICIPATION OF DOMESTIC LABOR AND CONTRACTORS, AND WILL NOT ENGAGE FOREIGN OPERATORS ON ANY PRODUCTION-SHARING BASIS. BEYOND THAT, OSEGUEDA SAID THAT MEXICO'S FINANCIAL SITUATION PROVIDES THE IMPETUS FOR PEMEX TO MAXIMIZE PRODUCTION AND EXPORTS

IN ORDER TO REDUCE THE NATION'S FOREIGN DEBT AND ASSIST ITS BALANCE OF PAYMENTS.

5. WHEN QUERIED ABOUT PEMEX'S PRICE POLICY, OSEGUEDA SAID THAT ITS \$13.40 PER BBL PRICE, FOB, WAS SET BY APPLYING TRANSPORTATION DIFFERENCES TO EQUATE WITH THE PRICE OF MEXICAN CRUDE'S CLOSEST COMPETITOR -- SAUDI ARABIAN LIGHT -- DELIVERED TO U.S. GULF COAST. ALTHOUGH PEMEX WILL NOT DISCOUNT THIS PRICE, COMPANY SHOWED FLEXIBILITY IN CREDIT TERMS (NOW 105 DAYS), AND SEEKS TO ENLARGE ITS TANKER FLEET TO ACQUIRE NEGOTIATING FLEXIBILITY IN TRANSPORT ARRANGEMENTS.

6. OSEGUEDA ALLUDED BRIEFLY TO LETTER OF INTENT TO SELL LIMITED OFFICIAL USE

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MEXICAN NATURAL GAS TO SIX U.S. COMPANIES, WHICH EXPIRED IN DECEMBER 1977. HE SAID THAT ASSOCIATED GAS RESULTING FROM PRODUCTION OF 2.2 MILLION B/D OF CRUDE WOULD GIVE SURPLUS OF TWO BILLION CF/D (EQUAL TO AMOUNT PROPOSED FOR PIPELINE EXPORT UNDER MEMORANDUM OF INTENTIONS). HE SAID PEMEX INTENDS TO SELL 800 MILLION CF/D OF THE ADDITIONAL GAS IN THE DOMESTIC MARKET, BY CONVERTING REFINERIES, POWER GENERATING PLANTS, AND MONTERREY INDUSTRIAL FUEL USERS TO GAS, EXPORTING THE FUEL OIL NOW USED BY THOSE PLANTS. HE

SAID MEXICO WOULD REINJECT ONE BILLION CF/D. ACCORDING TO OSEGUEDA, EXPORT OF FUEL OIL WILL BE PROFITABLE DESPITE COSTS OF CONVERTING PLANTS TO GAS BECAUSE THIS FUEL OIL IS NOW SOLD AT A VERY LOW SUBSIDIZED DOMESTIC PRICE. (HE DID NOT MENTION LOW SUBSIDIZED DOMESTIC PRICE OF NATURAL GAS FOR DOMESTIC USERS.) CHARTS USED IN PEMEX PRESENTATION, HOWEVER, SHOWED CONSIDERABLE PROJECTED REVENUES FROM NATURAL GAS EXPORTS IN 1980'S.

7. PEMEX REPRESENTATIVE WAS ALSO QUERIED ABOUT COMPANY'S POLICY OF SELLING ONLY TO END-USERS OF ITS CRUDE OIL AND ITS AIMS OF DIVERSIFYING EXPORT CUSTOMERS. OSEGUEDA CONFIRMED THAT PEMEX DOES NOT WISH TO SELL THROUGH TRADERS OR MIDDLEMEN AND CITED RECENT SALES TO THE U.S. STRATEGIC PETROLEUM RESERVE AS AN EXAMPLE OF THIS POLICY. HE ALSO ACKNOWLEDGED CONFLICT BETWEEN FIXED CRUDE OIL PRICE AND INTENT TO DIVERSIFY, NOTING THAT MEXICAN OIL IS NOT COMPETITIVE IN EUROPEAN OR FAR EAST MARKETS, AND STATED THAT PEMEX MIGHT REVISE ITS POLICY IN THE FUTURE.

8. OSEGUEDA OUTLINED PEMEX'S EXPANSION PROGRAM, STATING THAT GOAL IS TO EXPORT MORE REFINED PRODUCTS, TO MEET DOMESTIC DEMAND FOR BASIC PETROCHEMICAL FEEDSTOCKS, AND LIMITED OFFICIAL USE

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EVENTUALLY TO BECOME NET EXPORTERS OF PETROCHEMICALS. VANCE

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NNN

Message Attributes

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